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ABSTRACT

During the spring of 1974 a series of seminars on student aid programs and student access was held in connection with the congressional hearings on Title IV of the Higher Education Act. This seminar report on four new concepts for facilitating student access seeks to communicate some of the critical issues and concerns raised by the participants who have had major responsibility for developing or analysing the concepts. The concepts discussed are as follows. (1) The Educational Security Fund is proposed as a federally sponsored, independent agency intended to give to the children of middle-income ($15,000-$30,000) families total access to postsecondary education. (2) Two Years of Low or No Tuition in Postsecondary Education is a concept that constitutes one aspect of a much larger topic first suggested in a Carnegie Commission on Higher Education report. (3) Two Wisconsin programs of student assistance are based on the concept that public subsidies can best be targeted at the conclusion of the postsecondary educational experience. (4) The Hartke Family Tuition Assistance Plan provides across-the-board tuition assistance for all students at all types of accredited postsecondary institutions, regardless of the student's residence or status (independent or parent-supported) and regardless of whether the institution is public or private. (Author/KE)

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REPORT OF A SEMINAR HELD MAY 15, 1974
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The American Council on Education, founded in 1918 and composed of institutions of higher education and national and regional associations, is the nation's major coordinating body for postsecondary education. Through voluntary and cooperative action, the Council provides comprehensive leadership for improving educational standards, policies, and procedures.

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P R E F A C E

The Policy Analysis Service of the American Council on Education was created to give the Council a new ability to respond to public policy issues in higher education. The PAS prepares analyses of governmental actions, national social and economic developments, and trends in institutions of higher education; in addition, it provides information to ACE member institutions and associations. A major activity is convening seminars and meetings on issues of national policy. These seminars and meetings bring together representatives of congressional committees, the executive branch, state governments, institutions, and educational associations. Reports of meetings, analytic reports, and briefing papers will appear in the Policy Analysis Service Reports, and be made available to the membership.

During the spring 1974 a series of seminars on student aid programs and student access were held in connection with the congressional hearings on Title IV of the Higher Education Act. Since congressional hearings concerning the modification and extension of the Higher Education Act are continuing in 1975, this seminar report on the federal loan programs will serve to communicate widely some of the critical issues and concerns raised by the participants who have studied loan programs or who have worked extensively with them. The report in final form owes much to the expert editorial work performed by Laura Kent.

The PAS hopes that readers will find the Reports series informative, and will communicate comments or questions to the PAS staff.

John F. Hughes
Director
Policy Analysis Service

PRESENTATIONS

Richard J. Ramsden, Executive Director of the Consortium on Financing Higher Education --

- Student Aid Patterns at High-Cost Private Institutions
- Alternatives and Recommendations Concerning Loan Programs
- Five Key Issues

Bruce Johnstone, Executive Assistant to the President, University of Pennsylvania --

- Some Considerations for Congress on Loan Programs
- What Should be Done with NDSL?
- Repayment Terms, and the Interest Subsidy
- The Income-Contingent Concept
- Need for a Parental Loan Plan

Daniel Morrissey, Program Analyst, Office of Planning, Budgeting, and Evaluation, U. S. Office of Education --

- A Model on Defaults
- Limitations of the Model

Carol Wennerdahl, Director of the Illinois Guaranteed Loan Program and Director of State and Federal Program Relations for the National Council of Higher Education Loan Programs --

- Imperatives in Establishing a Loan Program
- The Viewpoint of Loan Program Administrators

REPORT ON ACE/PAS SEMINAR:

FEDERAL STUDENT LOAN PROGRAMS

MAY 15, 1974

In the post-Sputnik federal legislative flurry of 1958, Congress passed the National Defense Education Act, which embodied in Title II a new program of student loans taking its name from the title of the Act. (It became, in the Higher Education Act of 1965, the National Direct Student Loan program.) The thrust of federal intent in this Act was to enable colleges and universities to help needy students make up the monetary difference between their financial means and their educational costs. Institutional loan funds were initiated by a 90 percent federal capital contribution, with the remaining 10 percent provided by the applicant institution. The determination of loan amounts, as well as their collection, were responsibilities assumed by the institution.

The limitation on student borrowing during the undergraduate years is $5,000; for graduate and professional students, the total is $10,000, including undergraduate loans. Repayment begins nine months after the borrower ceases at least half-time study and extends over ten years. Liberalizing amendments to the NDSL over the years have provided for cancellation of loan repayments for those borrowers who take up public school teaching as a career. Given these provisions, along with the low interest rate of 3 percent following cessation of study and zero interest while still enrolled, student borrowers have received a substantial federal subsidy under the NDSL provision.

A new form of federal incentive for student borrowing to finance postsecondary education came in 1965, with Title IV-B of the Higher Education Act. In the Guaranteed Student Loan Program, the federal government entered a different lending market, that of the commercial bank, via guarantees of regular bank loans to students at interest rates not to exceed 7 percent. In those states so choosing, a state loan agency insures the

loan, with an 80 percent federal guarantee of repayment against student failure to repay. In those states without a state guarantee loan agency, banks or institutions that qualify as lenders are directly insured by the federal government, with a 100 percent federal guarantee of repayment, plus federal interest payments for the student while in school. (This aspect of the GSLP is sometimes referred to as the Federally Insured Student Loan program, or FISL.)

Students may borrow up to $2,500 per academic year, with a limit of $7,500 for undergraduates and of $10,000 for graduate students. Repayment begins nine to twelve months after graduation or withdrawal from an institution and extends over a five- to ten-year period. The GSLP has become the largest single student aid program in the nation, having insured over six million student loans by 1974.

In combination, these two major federally supported student loan programs have become the nucleus of the federal student aid complex. Their continued coexistence has become a major question for policy-makers. This seminar, one of a series on student aid to be sponsored by the Policy Analysis Service of the American Council on Education, focuses on some of the issues arising from these two programs. Each of the four panel members addressed these issues from a somewhat different vantage point.

Student Aid Patterns at High-Cost Private Institutions

Richard J. Ramsden, Executive Director of the Consortium on Financing Higher Education, described an 18-month study, sponsored by the Alfred P. Sloan Foundation, on the cost of financing undergraduate education at nine high-cost private institutions (Amherst, Brown, Dartmouth, Harvard, MIT, Mount Holyoke, Princeton, Wellesley, Wesleyan). The comparative costs of these nine institutions and their present policies of financial aid were examined. In addition, 7,000 alumni/alumnae were surveyed to find out their ability and willingness to pay for high-cost education, and 4,000 parents at various income levels were

surveyed to find out exactly how they were financing their children's education.

During the 1960s, the amounts of the scholarships that the nine institutions provided from their own funds tripled, from $6 million to $18 million; these figures do not include scholarships from outside sources (e.g., state programs, federal programs, the National Merit program). In that same period, the percentage of gross tuition dollars devoted to scholarship aid by the institutions rose from 18 percent to 26 percent, and the percentage of students on financial aid rose from mid-20 percent to 37 or 38 percent. In the early 1960s, increases in tuition were generally consistent with tuition increases in higher education generally and with median family income. Between 1967 and 1972, however, tuition and fees at the nine institutions went up 50 percent and have gone up another 20-25 percent from 1972 through 1974-75.

Beginning in 1970, financial aid patterns started to change in major ways. First, in response to financial difficulties, the nine institutions tried to increase revenues and hold down increases in costs -- including the costs of scholarship programs, especially when they came from unrestricted current funds. With tuition on the increase and growth in scholarship funds being restrained, something had to take up the gap: At the nine institutions, it was self-help, or what was expected of the students themselves, to be met by campus jobs or loans or both. From FY 1970 to FY 1974, the average self-help expectation went from $750 to over $1350 per year at the seven men's institutions in the group, and it is now averaging over $1500 a year. Because of this increase in self-help expectations, the scholarship needs of undergraduates at the nine schools were $6 million less than what they otherwise would have been by FY 1974. On the other hand, whereas undergraduate loan demand in 1967 was running about $4 million, it was up to $10 million by 1972-73. Rather than loans being

a possible "new" solution to the financing of undergraduate education, the institutions found they were already in the loan business to a considerable degree. Because of economic stringencies, students were being forced to go to the loan window rather than the scholarship window. One-third of the students would graduate with a considerable amount of debt, and three-fourths of these students would be going on to graduate school, where they would borrow additional sums.

During the study, there was particular concern that middle-income families were being especially hard-pressed; even those who had saved carefully had rarely made sufficient provision to offset the rate of inflation over the past two or three years. To these families, purchasing higher education at private institutions can be the largest expenditure they will ever make, even more than for a home; and as has been pointed out, society does not expect people to pay for a home out of current income in four years.

Loan Programs: Alternatives and Recommendations

As a result, the study increasingly focused on loan programs and two apparent alternatives: (a) institutions could either design and implement their own loan program, as was done by Yale, or (b) institutions could stay within the rubric of the Guaranteed Student Loan Program. The first alternative was rejected primarily as being very expensive and hard to finance. Even today, at least two of the nine institutions are still experiencing deficits. Also, the private loan route is hardly the answer for higher education generally. Seven of the nine institutions were already eligible lenders under the GSLP. The Education Amendments of 1972 had created SALLIE MAE, which promised long-term financing for institutional lenders under the GSLP for the first time. Based on these insights, the study group, in its public report, Paying for College, made the following recommendations regarding educational loan programs

1. Access to institutional loans should be improved since it is institutional policies (increasing self-help, etc.) that are creating the student debtor situation. The report recommended that, rather than being lenders of last resort, institutions be active lenders or create relationships with financial institutions which, in effect, make loan funds available.

2. Institutions should assume a greater long-term responsibility for the borrower. Toward that end, three steps were taken:

   a. An ongoing consortium (Consortium on Financing Higher Education) was created with a membership of approximately 20 high-priced private institutions. The Consortium will focus on problems in three areas: loan programs, comparative costs among institutions, and the whole question of pricing policy and the applicant market.

   b. Some of the nine institutions are considering supplemental loan programs whereby they will assume certain responsibilities for their young alumni/alumnae who, once graduated, find that they are having difficulty, for legitimate reasons, in repaying their GSLP obligations. The institution will provide supplementary financing to make sure that these graduates can meet their responsibilities.

   c. The group will make an effort to provide useful and practical suggestions for change in the GSLP as part of the debate over the Higher Education Act of 1975.

In the report Paying for College, several specific recommendations with respect to the Guaranteed Student Loan Program were made, including:

1. The interest subsidy should be maintained since it is preferable to any other alternative.

2. Congress should make clear that the program is to serve middle-income families, as it was originally intended to do.

3. Congress should make clear what repayment options are appropriate. Under the law, alternatives to level repayment over ten years are allowed. However, the Division of Insured Loans administratively has not permitted any alternatives to date. In recognition of growing debt burdens, the nine schools recommended that an eligible lender be given the option of writing either a graduated repayment note over ten years or a level repayment note over not more than fifteen years whenever total debt is $4000 or more. Instead of having a situation where every college in the country comes up with its own particular repayment scheme, the report suggested that OE develop a limited number acceptable to SALLIE MAE.

Other recommendations had to do with the grace period, which should be made shorter and more flexible; bankruptcy, an area that needs to be tightened up; and leaves of absence from college, which, as they are now handled, create great administrative difficulties.

Five Key Issues

In addition, a number of issues requiring further consideration were raised.

The first is the problem of consolidation. Many students, particularly those who attend more than one college, end up with several different loans (e.g., NDSL, college FISL, State Guarantee Agency loan, special college loan), each of which requires minimum repayments and may have its own collection agency. If one lender is less diligent than another, it affects the borrower's view of his/her total educational debt obligation. The student should have the option of taking all these pieces and consolidating them -- as one can today with personal loans -- so that there is one collection agency, one note, and one repayment schedule.

Second, the relationship between the National Direct Student Loan program and the Federally Insured Student Loan program should be examined. NLSL is insufficiently capitalized to meet the needs of higher education. Furthermore, some people believe that the benefits of NDSL are misdirected. Data show that the person who qualifies for an NDSL loan in school is not necessarily the person who needs a highly subsidized interest rate (3 percent) in the repayment period, when he/she is in the labor force.

Third, the relationship between FISL and the state agency programs should be clarified. The legislation encourages a dual program of state guarantee agencies and FISL, but the state programs and the federal programs are treated differently in terms of how costs are assumed. Possibly we should have a national system of 100 percent insurance on principal and interest. Ideally, there should be greater uniformity of loan paper throughout the United States; this would help considerably in developing secondary markets and making SALLIE MAE's development easier.

The fourth issue is that private enterprise needs to be made aware of what is going on. The total contribution of private enterprise to higher education has been on a relative plateau for the last four or five years. Whenever management tries to increase the contribution, stockholders resist. A million students per year are borrowing and thus are entering the labor force with heavy educational debts. At the same time, private enterprise spends large amounts of money on training young people. Turnover is a major and costly problem. To improve the situation, employers might initiate a program whereby a fraction of a new employee's repayment burden was picked up the first year, a higher percentage the second year, a still higher percentage the third year, and so forth. The person who stayed with an employer for five or six years would have some real help in paying off educational debts; the corporation would benefit from the reduction in turnover. The development of such a system might be a significant way for private enterprise to help higher education.

A final issue is the woman borrower, who often has special problems. An ever-increasing proportion of women are going on to college and to graduate school and are borrowing to do so, yet the work patterns and income patterns of women differ from those of men. Whether present loan programs reflect sufficiently these differences, as well as differences in the ability to repay, is doubtful.

Some Considerations for Congress

The second speaker was Bruce Johnstone, presently executive assistant to the president at the University of Pennsylvania and formerly project director of the Ford Foundation's studies on income-contingent lending. Johnstone first pointed out two somewhat distinct considerations for Congress as it reviews federal loan programs: (a) structural features of loan programs, and (b) impact on the federal budget of alternative features of loan programs. With respect to the latter, it must be asked whether

a particular budgetary expenditure is cost effective vis-a-vis alternative expenditures relating to loans and -- equally important -- vis-a-vis other expenditures in the total federal student assistance budget. Increasingly, as the higher education community comes to realize that only a finite part of the federal budget can go to loan programs, it must be more forthright in setting out its priorities. The days of clinging to sacred cows and simply wanting more new programs are over. This seminar should help to sharpen up some of the priorities of budgetary expenditures.

There are several points which must be addressed in the next round of legislation.

What Should Be Done with NDSL?

First, the future of the National Direct Student Loan Program should be decided. Preferably, the program should be eliminated or phased out. There are three reasons behind this recommendation:

1. The necessity for consolidation: The present separateness of federal loan programs simply exacerbates a number of problems: e.g., setting repayment terms, managing repayments, servicing loans.

2. The high cost of NDSL: Because of the interest subsidy, the program is becoming increasingly subsidized in this day and age of high interest rates. The days of the early 1960s, when the 3 percent interest rate was set, will not be seen again for the rest of this decade -- and probably not for the rest of the century. The cost of NDSL has accelerated, and it now represents not simply a separate program but an unnecessarily subsidized one. Rather than lose the effective federal contribution represented by that subsidy, it should be transferred into other programs that are more cost effective.

3. Unnecessary federal capitalization: There is little reason to capitalize a loan program through the federal budget. Title IV funds are being idly used up by large appropriations for NDSL, which -- if FISL can replace it -- simply means that we are losing out: These funds could be directed into either BOG supplementary grants or other forms of loan subsidy.

Repayment Terms

The second point has to do with repayment terms. In these inflationary times, both annual and aggregate borrowing by students can be expected to increase. Consequently, aggregate loan limits and repayment periods must be increased, particularly for students who go on to advanced professional schools. A ten-year period is too short to handle aggregate debt levels in the $5,000-$10,000 range. It is to be hoped that Congress will deal with this problem within the coming year. In addition, Congress should explicitly give its imprimatur to alternative repayment schedules, particularly if we move to some kind of income-contingent risk insurance which needs an underlying repayment schedule that can be graduated over time. Inflation and inevitably increasing incomes render a flat repayment schedule archaic.

The Interest Subsidy

Third, the interest subsidy should be eliminated, (always provided that those funds can be effectively transferred elsewhere within the total Title IV set of appropriations) for four reasons:

1. The 7 percent interest limitation to students is already a large, even a generous, subsidy, given prevailing interest rates and the rate of inflation. The subsidy is designed essentially to ease the burden on students in the repayment years, yet it is allocated on the basis of the family's income at the time of loan origination. That makes no conceptual sense.
2. If there were some evidence that the interest subsidy had a substantial enrollment-inducing impact, it might make sense. But the expenditure on the interest subsidy is not cost effective, given the extraordinary strain it places on the federal budget.
3. We have seen the agonies that can arise in how the interest supplement -- whether it is on or off -- can affect access to lending. The problem would be solved more effectively if the interest subsidy were simply eliminated and if a deferment or accrual of current interest income on all loans were mandated. If one assumes that loans are given to meet current college expenses, it is absurd to assume that current interest should ever be paid. If current interest must be paid, the student's costs rise, and his or her loan or grant from the institution must simply be adjusted accordingly. It creates unnecessary costs and paper work

for the institution to have to consider the costs of current interest payments in the calculation of need and the provision of student assistance. A better approach would be the mandating of an accrual of interest, with the provision that prepayment of any amount -- be it interest or principal -- can still be made at any time without penalty -- or perhaps at a discount.

4. In reference to issues about repayment term subsidies and supplements, we ought to look at the interest supplement. There is some indication that the ex post supplement set by HEW is not an effective inducement to lenders. Other forms of interest supplement should be considered such as a supplement for the duration of the loan, a supplement tied to market-tested interest rate such as short-term Treasury bills, or a supplement set prior to the period of lending. A mandated accrual of current interest might also require a slightly higher supplement since not having any current interest is a cash flow disincentive to lenders. But the whole purpose of the supplement is to make lenders willing to lend, and surely such adjustments would be in accord with the underlying legislation.

The Income-Contingent Concept

A fourth point which might be considered by Congress is the income-contingent concept. The Sloan group has endorsed the more limited "hybrid" fixed-schedule, income-contingent payment schedule, with a provision for risk insurance such that the borrower repays on a fixed schedule graduated over time but with a proviso whereby repayments in excess of some maximum percentage of annual income are either deferred or forgiven. Such a provision results, in effect, in an income-contingent schedule for low earners. This constitutes an insurance provision which ought properly to be a form of subsidy to the borrower. One can justify this as a case where higher education, society, institutions --whatever or whoever -- owes to student borrowers some pledge of assurance that debt repayment will be manageable. The University of Pennsylvania is working out a program, similar to Harvard's, in which it will agree to defer repayment in excess of income; many institutions will probably adopt such a "second contract" provision, though incorporating such a provision in a federal plan might prove difficult. Perhaps some kind of income tax credit could be used, even carried over into succeeding years for

amounts of educational debt repayment in excess of a certain percentage of adjusted gross income. This kind of disaster insurance for the low earner seems a more profitable area to examine than a fully income-contingent loan, though the latter has received most of the attention to date.

Need for a Parental Loan Plan

The final point which Congress should consider is the increasing need for a parental loan plan. Currently, there are pressures on the need analysis concept that may do mischief. Unfortunately, perhaps, society cannot afford to have the need analysis and parental tax badly eroded right now, because it cannot be made up elsewhere. Further, we ought not to give in to pressures to treat some kinds of illiquid assets differently from other assets. Parental contributions should not be smaller simply because the parents have chosen to hold assets in illiquid form. We have an enormous, and as yet unmet, obligation to provide a kind of financing for parents that is not provided today. In time, this ought to be part of an overall federal educational package.

A Model on Loan Defaults

The third speaker was Daniel Morrissey, Program Analyst of the Office of Planning, Budgeting, and Evaluation, U.S. Office of Education, who described OE's model on loan defaults.

In the middle of 1972, OE caught up with the fact that default rates were running so much higher than expected that supplemental appropriation requests were increasingly large and estimates of the magnitude of defaults could no longer be carried out on calculators. To discover where the defaults were coming from, a more systematic analysis of the internal trends within the loan program was needed. OE had raw data in the form of 5 million loan records. Thus, on March 1, 1973, a contract was signed with a contractor to carry out a three-phase investigation. The first phase consisted of analyzing the historical program data. The second was the construction

of a theoretical model that would indicate (a) the probabilities of defaulting, by various sets of characteristics and (b) the status of various loans (to estimate when claims would start to arrive at the Office of Education). The third phase was testing, validation, and application to the budgetary process. The investigation is now in the third phase.

So far, the model has been used to find (a) participation in FISL, by type and control of institution, from 1968 through 1973; (b) the average loan amount per student, by different variables; (c) the average cumulative loan size, by adjusted family income; (d) the distribution of loans, by age, race, sex, marital status, and academic year; (e) the average amount of loans, by academic year.

Four different kinds of data are used in the model:

1. Data on the borrower himself, including five or six different variables; there is, however, substantial missing data (12-20 percent) on the student borrower's sex, race, and marital status -- probably because borrowers do not offer this information and lenders forward applications without such data
2. Data on the lender (e.g., type, size of assets)
3. Data on the institutions that the student borrowers attend (e.g., type, control)
4. Data on the loan itself (e.g., size, whether second or third loan)

The first step was to run regression analyses to see what variables were correlated with the occurrence of default. The results were surprising and somewhat hard to explain: Of all the characteristics considered, the best predictor of a loan default is type of institution attended. That is: Common sense suggests that students from low-income backgrounds default at a higher rate than those from higher-income backgrounds, and this is indeed the case. But low-income students are likely to default at higher rates if they attend certain kinds of institutions. This finding requires further analysis because it implies that there is some kind of inexplicit homogeneity by type and control of institutions, and this raises broader questions that the model was not designed to explore.

The basic structure of the model was a student status flow model. Every loan may be viewed as having a particular status, or being in a particular box along the pipeline: (a) in school, (b) in the grace period, (c) deferred, (d) in repayment (in which case it is either being repaid or in default), or (e) paid in full (and there are more of these loans than one might think). Thus, the next step was to distribute all the borrowers in the program according to the status of their loans. Then, an effort was made to determine the graduation rate between the boxes, based upon continuing and sequential status reports. Finally, special analyses were carried out of each disbursement-year cohort (i.e., all borrowers who had loans disbursed in 1968, in 1969, and so forth) to determine the distribution of loans among the various status boxes for each particular year. Since the purpose of these analyses was to determine default rates, the focus was on those loans in repayment status rather than in any prior status. This is known as the loan maturation proportion or percentage. Overall, somewhere between 35 and 40 percent of all loans are in repayment status, the proportion being much higher for loans made in 1968 (about 70 percent) than for those made in 1972 (11 or 12 percent). To complicate matters: A particular default rate attaches to each annual cohort, and a particular default rate attaches to the type and control of institutions that students attend. For 1969, for example, separate default rates are imputed to those students whose loans are now in repayment status and who attended two-year colleges, four-year public colleges, four-year private colleges, universities, and so forth. Thus, instead of one single rate of default, there are a great many default rates, depending on type of school attended and on the year in which the loan was disbursed.

Limitations of the Model

The model and the data have certain limitations. First is underestimation of conversions: Supposedly, the lender reports to the Office of Education when a student comes into repayment status, and this becomes a part of the denominator of

the model, the numerator being whether the student is repaying or defaulting. But lenders do not always report quickly or accurately (and sometimes, not at all) on the total number of students who have come into repayment status. They are more likely to report on those who default (since they file a claim) and to overlook some of those who are are repaying, though the obligation to report is nominally there. The extent of under-reporting is between 15 and 20 percent. Thus, the model's various default rates are probably overstated, and OE is in the process of adjusting for this inaccuracy.

The second limitation to the model might be referred to as a Sword of Damocles or the overhang problem: Some states and proprietary institutions do not file all of their default claims but hold on to them, usually in order to work them for a longer period. The extent of the overhang is not precisely known. With the states, some fairly good estimates can be made through our liaison efforts. With proprietaries, there is no easy way to determine the magnitude of this set of potential claims.

A third, and more technical, difficulty is that the model assumes that the future will exactly resemble the past. That is, the default rates are based on the 35-40 percent of the loans that have matured, and it is assumed that the experience will be similar for the 60-65 percent that have not yet come into repayment. But this will probably not be the case. Most of those loans that have not come into repayment are probably still in school; that is, the student borrowers have persisted longer. Other research indicates that students who go to school longer probably have a different set of attitudes about repayment obligations than do those who finish school earlier or who simply drop out. One would expect that the highest default rates would occur with the group that comes into repayment first. So the model is deficient in that it attributes to those who will come into the repayment stream later the same tendency to default as those already in matured status.

Fourth, the model is currently insensitive to compositional changes within institutions, by type and control. If the inexplicit hypothesis that students who attend different types of institutions are relatively homogeneous (for example, in their attitudes toward repayment), then any changes in institutional composition will be detected by the model only after the fact. It is possible, for instance, that the attitudes toward repayment of that 65 percent who have not yet come into the repayment stream may be drastically altered; thus, the model could either overstate or understate the default rate.

Finally, current forecasting is based on the 1968-71 experience, and most statisticians would probably say that three years is not enough time to give precision in the model.

Summary

In summary, there is no single default rate, and to state one is misleading. To state default rates by academic sector is more reliable but presents weighting problems. As long as estimates are not precise, it is dangerous to make invidious comparisons between students attending one type of institution and those attending another with respect to default behavior. Still, some sense of the magnitude of the difference in default behavior among various sectors can be gained if we take private four-year colleges and private universities as having a base of 100. Using this index, students at four-year public colleges and public universities default at an index level of 117, or at a rate which is 17 percent in excess of those at private colleges and universities. Students at junior colleges have a default index of 298; those at proprietaries, 390. (The last figure is somewhat misleading, since proprietaries are divided into five categories according to accrediting association, and there are extremely broad variations of default behavior among these five groups.)

Imperatives in Establishing a Loan Program

The final speaker was Carol Wennerdahl, Director of the Illinois Guaranteed Loan Program (a public agency of the state) and Director of State and Federal Program Relations for the National Council of Higher Education Loan Programs (an association of the 26 state student loan guarantee agencies). Drawing on analyses she had prepared for an Issue Paper published by the National Council last fall, Ms. Wennerdahl discussed the five major questions which the Council feels require answers before a stable student loan program can be established.

The first question is: Who is the program to serve? When enacted in the Higher Education Act of 1965, the GSLP appeared to be directed primarily toward middle-income students as loans of convenience as distinguished from loans of need. The language about needy students in the 1972 Education Amendments, however, seemed to contradict this intention, producing considerable uncertainty as to whom the program is designed to serve. When the state loan officers go to their respective state legislatures to discuss state financial aid programs to supplement the federal programs, they have no idea how to categorize the GSLP in terms of the type of student it serves.

The second question is: Who should supply the capital for GSLP? Should commercial lenders continue to provide most of the funds to keep the program running? Should SALLIE MAE (the quasi-public agency organized to create a secondary market where student loans can be sold) be enabled to carry a larger share? If the decision is that the money for GSLP should continue to come chiefly from private lenders, then policy-makers must be careful to develop a program which is acceptable to the private financial community. Philosophically, the Higher Education Amendments of 1972 may have been intended to accomplish the commendable purpose of serving needy students, but the program as designed was simply not attractive to the private lenders. If anyone wants to design a guaranteed loan program that is not going to be acceptable to the private lenders, then he must first name an alternative source of funds.

The third question is: Who is to pay the costs of the program? Should the government subsidize the interest costs, or should the student bear the entire amount? The interest costs added to the amount of indebtedness may cause some students to decide against going to college. The question of whether or not the additional student costs associated with the Higher Education Amendments of 1972 were pricing us right out of the loan business has been debated for the last 18 months.

The fourth question is: Who is to originate the loans in the program? Should loan applications be taken and processed only by commercial lenders? Only by educational institutions? By both? There are many philosophical and practical problems involved in answering that question.

The fifth and final question is: Who is to guarantee the funds? The federal legislation claims as a purpose encouraging the establishment of state loan guarantee agencies, but it also creates disincentives for operating them, thereby jeopardizing continued state funding of even the existing agencies.

The National Council has encouraged policy-makers to address all of these issues. The Council has encouraged an analysis of what has happened during the last 18 months -- the crisis months. What form of loan program management (state or federal) kept the higher percentage of commercial lender support? If one were to take the latest HEW data for the first seven months of fiscal 1974 and compare that loan volume to figures on the same data for the first seven months of fiscal 1972 (which predate the 1972 amendments), one would find that the guarantee agency states, whose activity is almost entirely from commercial lenders, were off in volume about 13 percent from earlier peaks. The Federally Insured Loan Program was off about 22 percent. It looks as if the two programs compared fairly closely in performance until one begins to analyze the type of loans that make up the FISL volume. If the volume of the top three home study schools who function as lenders in the FISL program were excluded, the FISL

volume would have dropped 34 percent. It has been estimated that if the FISL volume from another two or three dozen educational lenders were eliminated, the FISL volume from the remaining lenders would be off maybe 59, 60, or even 70 percent (as compared with the 13 percent figure for guarantee agency states). Conjecturally, this could mean that in the FISL program, unless the student attends one of two or three dozen schools, he/she just cannot get loan funds.

The Viewpoint of Loan Program Administrators

In their role of administrators, the National Council members view any potential modifications to the GSLP from a slightly different perspective than do other groups. The Council tends to look at any proposal in light of its potential effect on the following:

First, what will the proposal do to the funding base? Will the commercial lenders accept it? Will it raise their costs to any degree?

Second, what will the proposal do to equal access to loans? Will it give preferential status to students of certain income levels? Will it give an advantage to students attending certain schools or types of schools?

Third, what will the proposal do to the program's default record? The GSLP is vulnerable to constant criticism from the media. In contrast, the National Direct Student Loan Program of low-interest loans has run for years with very little said about their even higher delinquency rates. If the proposal will skyrocket default rates, the public will tighten the pursestrings. Nothing frightens off lenders faster than a high default rate.

Fourth, is the proposal attractive to the students who will use the program and to those who represent them in the government? Regardless of how administratively sound an idea is, it must have political appeal or its chances are nil.

For purposes of example, let us consider Richard Ramsden's proposal, earlier in the seminar, that schools able to meet certain standards should become lenders in GSLP. The National Council would appraise this suggestion on the basis of the above

questions. For instance, in GSLP, commercial lender support has tended to wither when those lenders have seen an alternative source of funds (in this case, the schools) to recommend to students. Further, unless the government were to subsidize this activity for all schools, the problem will be addressed only for those students attending schools of sufficient wealth and stature to capitalize and administer the program, putting at a severe disadvantage those students attending other schools (the majority). Such a differentiation has obvious implications for the issue of equal access to funds for all students. With respect to the effect of the proposal on the default rate, the data show that colleges acting as lenders in the FISL program have a delinquency rate almost triple that of commercial lenders in the student loan program, and these are colleges of sufficient wealth to capitalize the program. Vocational school experiences in lending activities have been similar to those of the colleges. Other questions and issues could be considered, but these will have to wait until another presentation.